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# Message Text

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R 271903Z JAN 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 4944
INFO ALL EC CAPITALS
USMISSION GENEVA
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AMCONSUL BORDEAUX
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USEEC ALSO FOR EMBASSY

USMTN ALSO FOR MISSION

E.O. 11652: GDS
TAGS: EGEN, FR
SUBJ: ELECTIONS 1978: FOUR SCENARIOS FOR
THE FRENCH ECONOMY

REFTEL PARIS 1956

1. SUMMARY. NO MATTER WHICH GOVERNMENT IS ELECTED IN MARCH, IT WILL BE CONFRONTED BY CERTAIN BASIC DOMESTIC AND INTERNATIONAL ECONOMIC CONSTRAINTS (SEE REFTEL). HOWEVER, THE SPECIFIC PROGRAMS OF THE GOVERNMENT IN
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POWER COULD PRODUCE SHARPLY DIFFERING RESULTS OVER THE SHORT TERM WITH MUCH GREATER INFLATION AND BALANCE OF PAYMENTS PRESSURES FROM PROGRAMS OF THE LEFT. THESE DIFFERENT POSSIBILITIES ARE THE SUBJECT OF AN ARTICLE IN THE JANUARY ISSUE OF "EXPANSION." IT IS BASED ON ANALYSES BY THE NATIONAL INSTITUTE OF STATISTICS AND ECONOMIC STUDIES

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(INSEE) OF THE MINISTRY OF FINANCE. THIS MESSAGE SUMMARIZES AND COMMENTS ON THE ARTICLE'S PROJECTIONS WHICH ARE PLAUSIBLE GIVEN THE ASSUMPTIONS USED BY INSEE. END SUMMARY.

2. THE JANUARY ISSUE OF "EXPANSION," A WELL KNOWN BUSINESS MONTHLY, POSTULATES FOUR SCENARIOS FOR ECONOMIC POLICY AND THE FRENCH ECONOMY THIS YEAR. FUNDAMENTALLY, THERE ARE ONLY TWO OPPOSING ECONOMIC PHILOSOPHIES: RIGHT VERSUS LEFT. HOWEVER, FOR EACH PHILOSOPHY, "EXPANSION" FORECASTS A WIDE VARIATION IN RESULTS FOR THE FOUR SCENARIOS, DEPENDING ON THE MEANS BY WHICH THE OPPOSING PHILOSOPHIES ARE IMPLEMENTED. THE "BARRE SCENARIO" ASSUMES THAT THE CURRENT MAJORITY WINS THE ELECTIONS WITH A SUFFICIENTLY LARGE MAJORITY SO THAT IT CAN CONTINUE ITS ECONOMIC STABILIZATION PROGRAM. HOWEVER, IF, AS IN THE "CHABAN SCENARIO," IT IS JUST BARELY ABLE TO SQUEEZE THROUGH, IT WILL PROBABLY BE FORCED TO INTRODUCE A MORE GENEROUS SOCIAL POLICY. A VICTORY OF THE LEFT WOULD MEAN THE IMPLEMENTATION OF THE COMMON PROGRAM. IF THE COMMUNISTS SHOULD REFUSE TO PARTICIPATE IN THE GOVERNMENT, THE "MITTERRAND SCENARIO" ASSUMES THAT THE SOCIALISTS WOULD IMMEDIATELY INSTITUTE ONLY THE SOCIAL PART OF THE PROGRAM,
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LEAVING OTHER ASPECTS TO BE IMPLEMENTED SLOWLY AND INCOMPLETELY. WITH THE COMMUNISTS PARTICIPATING IN THE GOVERNMENT, THE "MARCHAIS SCENARIO" PROVIDES FOR THE IMMEDIATE IMPLEMENTATION OF THE ENTIRE COMMON PROGRAM AS WELL AS THE ESTABLISHMENT OF STRICT CONTROLS TO PREVENT AN ESCALATION OF INFLATION AND A MASSIVE DETERIORATION IN THE FOREIGN TRADE DEFICIT. DETAILED DESCRIPTIONS OF EACH OF THESE SCENARIOS FOLLOW.

3. BARRE SCENARIO -- WITH THE MAINTENANCE OF THE STABILIZATION PROGRAM THROUGHOUT THIS YEAR, STAGNATION SHOULD GIVE WAY TO RECOVERY TO THE EXTENT THAT INFLATION AND THE FOREIGN TRADE DEFICIT ARE BROUGHT UNDER CONTROL. THE GROUNDWORK WOULD BE LAID FOR HIGHER GROWTH AND EMPLOYMENT IN 1979 WITHOUT SACRIFICING THE FUNDAMENTAL EQUILIBRIA. HOWEVER, THE PRICE WOULD BE WEAK GROWTH AND INCREASING UNEMPLOYMENT THIS YEAR. "EXPANSION" EXPECTS THAT SOME SOCIAL UNREST MAY RESULT FROM A

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VICTORY OF THE MAJORITY, BUT THAT IT WOULD
BE OF A TEMPORARY NATURE, AMOUNTING TO 5 MILLION
WORK DAYS LOST IN STRIKES IN 1978 COMPARED TO THE
UNUSUALLY LOW 2.8 MILLION IN 1977. THE INCREASE
IN PURCHASING POWER WOULD REMAIN MODERATE,
OBTAINED PRIMARILY FROM INCREASES IN SOCIAL
TRANSFERS. THE NOMINAL INCREASE WOULD BE THE
SAME AS IN 1977, 16 PERCENT; HOWEVER, THE REAL
INCREASE WOULD BE HIGHER ON THE ASSUMPTION OF
8.5 PERCENT RATE OF INFLATION THIS YEAR. HOURLY
WAGES SHOULD INCREASE BY 11 PERCENT VERSUS 12
PERCENT IN 1977. DISPOSABLE HOUSEHOLD INCOME IS
ASSUMED TO GROW BY 3 PERCENT IN REAL TERMS, AND
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ASSUMING NO CHANGE IN THE SAVINGS RATE,
CONSUMPTION WOULD ALSO INCREASE BY 3 PERCENT.

4. CONSUMPTION AND EXPORTS WILL PROVIDE THE
PRINCIPAL SUPPORT TO EXPANSION. THE MODERATE
BUT STEADY RISE IN CONSUMER DEMAND SHOULD
STIMULATE INVESTMENT. REPORTEDLY, 55 PERCENT
OF CONSUMER GOODS INDUSTRIES HAVE A MARGIN OF
5 PERCENT OR LESS OF AVAILABLE PRODUCTIVE
CAPACITY. EXPORTS SHOULD INCREASE BY 7.5 PERCENT
WHILE IMPORTS SHOULD INCREASE BY ONLY 6.0 PERCENT
DUE TO THE MODERATE GROWTH OF DOMESTIC DEMAND.
THE TRADE DEFICIT IS PREDICTED TO FALL TO
FF 4 BILLION FOR THE YEAR AND TO BE ZERO IN
THE FOURTH QUARTER. THIS SWING IN THE EXTERNAL
BALANCE ALSO WILL ADD TO ECONOMIC GROWTH.
COMPANIES ARE EXPECTED TO RETAIN THEIR PRUDENT
POLICY REGARDING INVENTORY BUILD-UP DUE TO
FINANCIAL CONSTRAINTS. THEREFORE, ONLY A
MODEST INCREASE IN INVENTORIES IS PREDICTED SINCE
IT IS PROBABLE THAT THE REDUCTION IN INVENTORIES,
WHICH BEGAN IN THE SECOND HALF OF LAST YEAR, WILL
CONTINUE DURING THE FIRST HALF OF THIS YEAR. THUS,
THE ECONOMY IS EXPECTED TO GROW BY 3-3.5 PERCENT.
THIS WILL NOT BE SUFFICIENT TO PREVENT AN INCREASE
IN UNEMPLOYMENT TO APPROXIMATELY 1,200,000.

5. CHABAN SCENARIO - IF THE CURRENT MAJORITY
PARTIES HAVE A VERY NARROW VICTORY OR EVEN A
DEFEAT IN TERMS OF TOTAL VOTES, SOMEONE WITH
BOTH THE SOCIAL AND POLITICAL BACKGROUND OF
JACQUES CHABAN DELMAS COULD BE SELECTED AS THE
NEXT PRIME MINISTER IN ORDER TO ENLARGE THE
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MAJORITY AND TO ASSURE THE FIDELITY OF THE
RPR. THE GOVERNMENT WOULD HAVE TO INTRODUCE
A BROADER SOCIAL POLICY IN ORDER TO COUNTERACT
THE SOCIAL INSTABILITY WHICH MAY ARISE FROM THE
UNIONS ATTEMPTING TO OBTAIN BY DIRECT ACTION
WHAT THE LEFT NARROWLY MISSED OBTAINING THROUGH
VOTES. HOWEVER, BUSINESS ANTICIPATIONS WOULD
REMAIN FAVORABLE DUE ON ONE PART TO THE VICTORY
OF THE RIGHT AND ON THE OTHER PART TO THE STIMULATION
OF THE ECONOMY. CONSUMPTION WOULD INCREASE
BY 4 PERCENT COMPARED TO ONLY 3 PERCENT UNDER
THE BARRE SCENARIO. BUSINESS INVESTMENT WOULD BE
STIMULATED, INCREASING BY 4 PERCENT, WHILE
INVENTORY BUILD-UP WOULD BE MORE DYNAMIC. INDUSTRIAL

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PRODUCTION WOULD INCREASE BETWEEN 3.5 TO 4.0 PERCENT.
THE 3.8 PERCENT INCREASE IN THE GROSS NATIONAL
PRODUCT MAY BE SUFFICIENT TO MAINTAIN UNEMPLOYMENT
AT ITS PRESENT LEVEL. HOWEVER, THE PRICE WOULD
BE A REKINDLING OF INFLATION. PRICES WOULD
INCREASE BY 11 PERCENT OVER THE YEAR AND AT A
13.0 PERCENT ANNUAL RATE IN THE LAST QUARTER.
REAL PURCHASING POWER WOULD FALL WITH A RESULTING
DECLINE IN CONSUMPTION AND PRODUCTION. BY THE
END OF THE YEAR THE RATE OF GROWTH OF DEMAND
WOULD HAVE RETURNED TO ITS CURRENT LEVEL. THE
DETERIORATION WOULD BE ESPECIALLY MARKED IN THE
EXTERNAL SECTOR. WITH THE SATURATION OF PRODUCTIVE
CAPACITY IN THE CONSUMER GOODS SECTOR, IMPORTS
WILL BE HIGHER THAN IN THE BARRE SCENARIO.
A TRADE DEFICIT OF FF 15 BILLION WOULD BE VERY
PROBABLE.

6. MITTERRAND SCENARIO -- "EXPANSION" DESCRIBES
THE CONTRADICTION OF THE SOCIALISTS AS THE INTENTION
TO APPLY A MASSIVE STIMULUS TO THE ECONOMY BY
APPLYING THE SOCIAL MEASURES OF THE COMMON
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PROGRAM WITHOUT REPUDIATING THE CURRENT MARKET

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MECHANISM. UNDER A GOVERNMENT OF THE LEFT IN WHICH THE COMMUNISTS DO NOT PARTICIPATE, THE SOCIAL SITUATION MAY BE MUCH MORE TROUBLED THAN WITH A RIGHTIST GOVERNMENT. THE PC AND THE CGT MIGHT MAINTAIN CONTINUAL PRESSURE ON THE SOCIALISTS TO ASSURE THAT THEY KEEP THEIR PROMISES. THUS, "EXPANSION" PREDICTS THAT 6 MILLION WORK DAYS WILL BE LOST IN STRIKES, VERSUS 5 MILLION IN THE TWO PREVIOUS SCENARIOS.

7. THE SOCIAL MEASURES TO BE TAKEN IN THE "MITTERRAND SCENARIO" INCLUDE THREE ASSUMPTIONS REGARDING INCOME: THE MINIMUM HOURLY WAGE (SMIC)
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WOULD BE RAISED TO FF 2,300 PER MONTH IN APRIL; WAGES LESS THAN FOUR TIMES THE SMIC WOULD BE LIMITED TO A 4 PERCENT REAL INCREASE, WHILE WAGES ALREADY FOUR TIMES HIGHER THAN THE SMIC WOULD BE MAINTAINED AT THEIR CURRENT LEVEL. THE INCREASE IN TOTAL WAGES SHOULD BE 18 PERCENT, WHILE THE INCREASE IN SOCIAL TRANSFERS WOULD BE 22 PERCENT. THIS WOULD RESULT IN A 17 PERCENT INCREASE IN DISPOSABLE INCOME AND A 5 PERCENT INCREASE IN PURCHASING POWER. SINCE THE RATE OF SAVINGS WOULD DECREASE DUE TO A TRANSFER OF INCOME TO THOSE WITH THE LOWEST PROPENSITY TO SAVE FROM THOSE WITH THE HIGHEST, CONSUMPTION SHOULD INCREASE BY MORE THAN 6 PERCENT.

8. A BOOM WOULD RESULT IN THE CONSUMER GOODS SECTOR, BUT AS HAS BEEN SHOWN IN THE PRECEDING SCENARIO, THESE INDUSTRIES ARE THE LEAST ABLE TO EXPARD PRODUCTION. THUS, ACCORDING TO INSEE, THE INCREASE IN CONSUMER DEMAND WOULD BE TWO-THIRDS SATISFIED BY IMPORTS. EXPORTS WOULD INCREASE AT A SLOWER RATE THAN IN THE PRECEDING TWO SCENARIOS

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DUE TO A REDUCTION IN THE WORK WEEK AND THE
LARGER NUMBER OF DAYS LOST IN STRIKES. THIS WOULD
BE FURTHER COMPLICATED BY A 20 PERCENT DEPRECIATION
OF THE FRANC. THUS, THE EXTERNAL TRADE DEFICIT IS
PREDICTED TO BE FF 35 BILLION. THE INCREASE IN
THE RATE OF INFLATION, WHICH IS PREDICTED TO BE
15 PERCENT FOR THE YEAR AND 18 PERCENT AT AN ANNUAL
RATE IN THE LAST QUARTER, PLUS THE HEAVY SOCIAL AND
FISCAL CHARGES WOULD DENY COMPANIES THE NECESSARY FUNDS
TO FINANCE INVESTMENT. THUS, REAL BUSINESS
INVESTMENT IS PREDICTED TO FALL BY ONE PERCENT.
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ALTHOUGH GOVERNMENT INVESTMENT IS FORECAST TO
INCREASE BY 4.3 PERCENT, TOTAL REAL INVESTMENT
WOULD INCREASE BY ONLY 0.3 PERCENT. BY THE
LAST QUARTER GROSS NATIONAL PRODUCTS WOULD BE
INCREASING AT AN ANNUAL RATE OF ONLY 2 PERCENT
AS COMPARED TO 4.2 PERCENT FOR THE ENTIRE YEAR.

9. MARCHAIS SCENARIO - ACCORDING TO "EXPANSION," A
JOINT GOVERNMENT OF THE SOCIALISTS AND THE COMMUNISTS
WOULD BE VERY DIFFERENT IN ITS ECONOMIC POLICY
BECAUSE THE COMMUNISTS WOULD MAKE THIS A CONDITION
FOR ITS PARTICIPATION. THE COMMUNISTS WOULD REQUIRE
THAT THE ENTIRE COMMON PROGRAM BE IMMEDIATELY
IMPLEMENTED AS WELL AS THAT CONTROLS BE ESTABLISHED
ON PRICES, TRADE AND THE MONEY SUPPLY IN ORDER TO
PREVENT THE TYPE OF ECONOMIC DETERIORATION THAT
WOULD OCCUR UNDER THE PREVIOUS SCENARIO. THUS,
ALTHOUGH THE MARCHAIS SCENARIO MAKES THE SAME
ASSUMPTIONS REGARDING THE SOCIAL MEASURES AND
THEIR EFFECT ON CONSUMPTION, IT IS VERY
DIFFERENT REGARDING PRICES, TRADE AND GROWTH. THE
RATE OF INFLATION WOULD BE ONLY 13 PERCENT THANKS
TO QUASI-ADMINISTERED PRICES. A DUAL FOREIGN
EXCHANGE MARKET WOULD BE ESTABLISHED. PROTECTIONIST
MEASURES WOULD REDUCE THE RATE OF IMPORT INCREASE
FROM 10 PERCENT IN THE MITTERRAND SCENARIO TO 8
PERCENT IN THE MARCHAIS SCENARIO.

10. ALTHOUGH THERE WOULD BE A SHARP DECLINE IN
BUSINESS INVESTMENT -- 5 PERCENT -- THE HIGH
LEVEL OF GOVERNMENT INVESTMENT WOULD KEEP THE DECLINE
IN TOTAL INVESTMENT TO 0.5 PERCENT. THE RATE OF
GROWTH OF THE GROSS NATIONAL PRODUCT IS PREDICTED
TO BE 4.7 PERCENT AS COMPARED TO 4.2 PERCENT IN
THE MITTERRAND SCENARIO. THE PROHIBITION ON LAY-OFFS
PLUS A MASSIVE HIRING BY THE NATIONALIZED SECTOR WOULD
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REDUCE THE LEVEL OF UNEMPLOYMENT TO 850,000.
THE PRICE OF THIS POLICY WOULD BE A MASSIVE



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GOVERNMENT DEFICIT NEAR FF 100 BILLION, AND THE
VIRTUAL DISAPPEARANCE OF BUSINESS OPERATING SURPLUSES.

11. IN CONSTRAST TO THE FIRST THREE SCENARIOS WHICH
WERE VERY SIMILAR IN FORM IF QUITE DIFFERENT IN
DEGREE, THE LAST SCENARIO INVOLVES A BASIC CHANGE IN
THE VERY NATURE OF THE FRENCH ECONOMY FROM A LIBERAL
TO A CONTROLLED ECONOMY. WHETHER SUCH A CHANGE WOULD
BE SUSTAINABLE AND WHAT WOULD HAPPEN BEYOND

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1978 FOR THE FRENCH ECONOMY UNDER SUCH A SYSTEM ARE QUESTIONS WHICH "EXPANSION" RAISES BUT DOES NOT ANSWER.

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12. "EXPANSION" QUANTIFIES THE RESULTS OF THESE FOUR SCENARIOS FOR 1978 AS FOLLOWS:

| | BARRE AND CHAIS | CHABAN | MITTER- MARCHAIS | MAR- |
|---|---|---|---|---|
| GDP | | | | |
| ANNUAL AVERAGE | 3.3 | 3.8 | 4.2 | 4.7 |
| ANNUAL RATE IN LAST QUARTER | 4.0 | 4.0 | 2.0 | 6.0 |
| UNEMPLOYMENT (THOUSANDS, SEASONALLY ADJUSTED) | | | | |
| END OF 1978 | 1,200 | 1,100 | 1,000 | 850 |
| RETAIL PRICES | | | | |
| AVERAGE FOR YEAR | 8.5 | 11.0 | 15.0 | 13.0 |
| ANNUAL RATE IN LAST QUARTER | 7.0 | 13.0 | 18.0 | 15.0 |
| PUBLIC FINANCES (BALANCE IN BILLION FRANCS) | | | | |
| ANNUAL AVERAGE | -15 | -25 | -60 | -80 |
| TRADE BALANCE (BALANCE IN BILLION FRANCS) | | | | |
| ANNUAL AVERAGE | - 4 | -14 | -35 | -30 |
| ANNUAL RATE IN LAST QUARTER | 0 | -20 | -50 | -40 |

13. EMBASSY COMMENT: THE "EXPANSION" ARTICLE IS BASED ON UNPUBLISHED ESTIMATES MADE BY INSEE. THE "BARRE SCENARIO," FOR EXAMPLE, IS ALMOST IDENTICAL TO INSEE'S CURRENT INTERNAL 1978 FORECAST. THE DETERIORATION OF THE TRADE BALANCE AND THE RATE OF INFLATION IN BOTH THE "MITTERRAND" AND "MARCHAIS" SCENARIOS CLEARLY ARE NOT SUSTAINABLE. THE TRADE DEFICITS IN BOTH SCENARIOS ARE CLOSE TO OR LARGER THAN ANY IN FRENCH HISTORY, AND THE RATE OF INFLATION PROJECTED FOR THE LAST QUARTER OF 1978 IS AS HIGH AS THE "RUNAWAY INFLATION" OF 1974.
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OBVIOUSLY, SOMETHING WOULD HAVE TO GIVE IN 1979. THUS, ONE PURPOSE OF THE COLLABORATION BETWEEN "EXPANSION" AND INSEE IS TO SHOW THAT A VICTORY BY THE LEFT WOULD DESTABILIZE THE FRENCH ECONOMY, WHICH IS A MAJOR

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CAMPAIGN THEME OF THE MAJORITY PARTIES. POLITICS ASIDE, THE FOUR SCENARIOS IN THE "EXPANSION" ARTICLE REPRESENT PROJECTIONS THAT COVER A RANGE OF POSSIBLE DEVELOPMENTS BASED ON THE INSEE MODEL OF THE FRENCH ECONOMY. THE INSEE OFFICIALS WHO SUPERVISED THE PROJECTIONS USED IN THE "EXPANSION" ARTICLE BELIEVE THAT THEY REPRESENT PLAUSIBLE OUTCOMES AND THE EMBASSY HAS NO REASON TO DISAGREE WITH THEIR CONCLUSIONS, GIVEN THEIR ASSUMPTIONS. OBVIOUSLY WITH SOMEWHAT DIFFERENT ASSUMPTIONS, THE SHORT-TERM EFFECTS ON THE ECONOMY WOULD BE DIFFERENT. INSEE, IN EFFECT, TOOK THE SOCIALIST PARTY AND COMMUNIST PARTY VERSIONS OF THE COMMON PROGRAM VERY LITERALLY IN THEIR PROJECTIONS WHICH ARE THE BASIS OF THE "EXPANSION" ARTICLE. A GOVERNMENT OF THE LEFT THAT BEHAVED DIFFERENTLY ONCE IN POWER FROM WHAT IT PROMISED IN ADVANCE WOULD MODIFY SOME OF THE KEY ASSUMPTIONS IN THE INSEE PROJECTIONS. COPIES OF THE "EXPANSION ARTICLE ARE BEING POUCHED. END COMMENT.
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**Decaption Date:** 01 jan 1960
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